CHRISTENSEN INSTITUTE

IMPROVE OR TRANSFORM:

Choosing the right business model to deliver health

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TABLE OF CONTENTS

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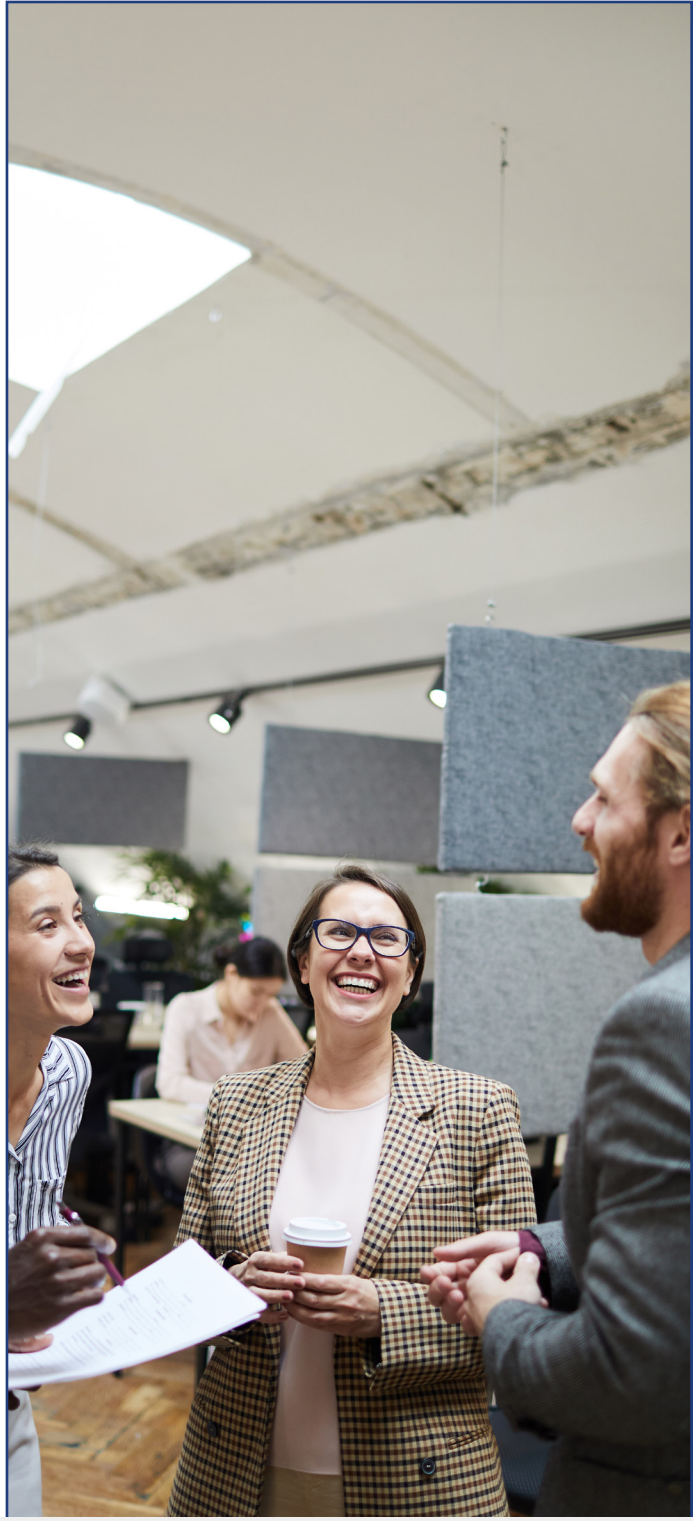


EXECUTIVE SUMMARY

There is immense pressure on today's health care leaders to create health, not just treat sickness. And this is occurring at a time when many health systems are struggling financially. In an uncertain environment compounded by the effects of the pandemic, many are grappling with how to best transform their business models toward those centered on drivers of health (DOH) and value-based care (VBC). To date, most attempts to do so from within their core businesses haven't yielded the desired impact of addressing health inequities, improving health outcomes, and lowering the cost of care.

In our last report ("You Are What You Treat," published in May 2022), we identified the causal mechanisms inherent in traditional health care business models that perpetuate this challenge.[1] Going one step further, this report addresses why most leaders fail to effectively solve for this problem. This occurs because many health care executives don't realize there are two divergent, strategic pathways they can pursue for change, and because they don't have a clear methodology to effectively determine which option to choose.

Changing a business model is hard work. But to make this seemingly impossible—and historically ineffective—undertaking easier to tackle and increase chances for success, this report provides a "how to" guide for executives. Herein, we walk leaders through the two different types of strategies they can utilize and help them identify which is the best fit for their context. One strategy is likely to lead to more success in the short run (improve), while the other will lead to greater success in the long run (transform). Each one has a different purpose; a different set of contextual requirements; as well as different challenges, benefits, and risk profiles.

Because business model change is not one-size-fits-all, the choice of whether to pursue a strategy that leads to more immediate success or to longer-term sustainability depends upon the leader's context. This includes the following:

- The organization's mission, vision, and beliefs about the future,
- The current business model structure and viability, and
- The leader's willingness to take on risk in an uncertain environment.

To succeed with either type of approach, it's critical that leaders outline their specific context and understand the distinction between their options. Following these steps will allow leaders to avoid the mistake of unknowingly applying a misaligned and misdirected strategic approach to their model.

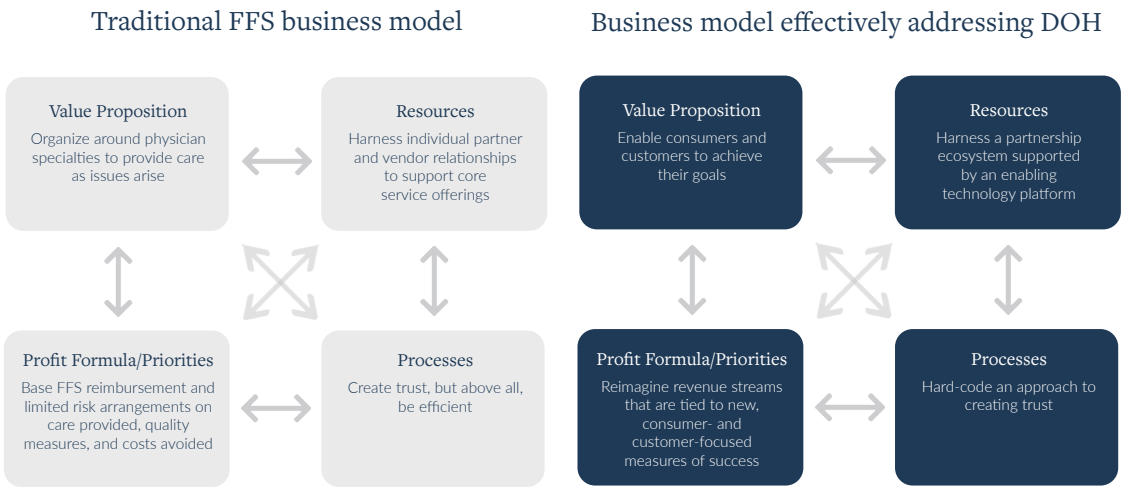
Our research of leading, innovative health systems—combined with business model theory—provides a first-of-its-kind strategy guide and decision tool executives can use to determine which pathway is right for them. With this guide, they'll be better equipped to achieve specific goals and sustainable business model viability. This roadmap can be used whether a leader is seeking to better address DOH, transforming from fee-for-service (FFS) to a value-based business model, or pursuing a different business model goal.

INTRODUCTION: CREATING A ROADMAP TO INNOVATIVE BUSINESS MODEL SUCCESS

Earlier this year, we published our first report on drivers of health (DOH) and revealed the business models that are able to effectively address this value-based approach to health care. Through this research, we were able to observe the situations that leaders find themselves in when attempting to integrate DOH into their businesses. And we uncovered a common, critical struggle: leaders were attempting to address DOH from within their current, traditional business models. This wasn't working because, in many cases, improving DOH conflicted with their existing value proposition.

In Figure 1 below, we compare a traditional fee-for-service (FFS) business model to one that effectively addresses DOH to improve health and life outcomes. As the figure highlights, there is little overlap between the components of the two models. And, as a result, organizations can't effectively deliver on the new value proposition associated with DOH from within the FFS business model.

Figure 1. Comparing health care business models



This paper builds on findings from our initial report to provide the effective guidance that health system leaders are seeking. It includes a detailed guide for how to choose a business model that can serve the inherently different value proposition of creating health rather than treating sickness.

Our findings apply to all health care leaders seeking to prepare for the future, and specifically to those seeking to better address DOH. In this paper, we first articulate a three-step guide to help leaders determine which strategy is right for them. After an overview of both strategies, the report then provides leaders with a decision tool and informative case studies. Based on theories and insights from the Christensen Institute and innovative health care organizations, the three-step guide, decision tool, and field takeaways offer a unique and effective roadmap toward innovative business model success.

Definitions

In this report we use a number of terms that have varying definitions. To clarify what we mean, we've outlined key definitions below.

Innovation: Something new that creates value for consumers, customers, and the organization[2]

- **Disruptive innovation:** An innovation that makes products and services more accessible and affordable, thereby making them available to a larger population[3]
- **Sustaining innovation:** A better performing product and/or service, sold at higher profit for an organization's best customers[4]

Strategy: A coordinated and integrated set of choices that articulates how an organization will achieve its vision[5]

Improvement: The process of making something that exists better[6]

Transformation: The act or process of changing completely to make something new

UNDERSTANDING CONTEXT TO DETERMINE STRATEGY: A THREE-STEP GUIDE

Despite the stubborn challenges inherent in attempting to change entrenched business models, it's still possible. Yet to make their attempts successful, and to pursue the appropriate type of business model change, leaders must first understand the specific context in which their model exists. In this section, we outline three key steps leaders should take to determine which strategy is right for them.

Strategy without vision is much like a set of directions with no specified destination. A variety of resources exist to help leaders in the process of defining their vision.

Step 1: Articulate beliefs about the future, the mission, and the vision

Outlining beliefs about the future, as well as the company's purpose (mission) and where it sees itself going (vision) are foundational aspects to an organizational strategy. To formulate beliefs, one should perform a thorough scan of current and emerging market trends, consumer behaviors, competitor dynamics, and futurist predictions. Armed with these inputs, leaders can then articulate three to five beliefs about the future that will inform what they need to do now in order to succeed in the future they see on the horizon. Based on field insights, some beliefs about the future may include the following:

- Hospitals will become commodities with commodity margins.
- Nontraditional competitors will thrive in a consumer-oriented marketplace.
- New business models are required to succeed in an environment defined by value-based health.

As part of this foundational effort, one should also affirm that the existing mission and vision are still the purpose and desired destination for the company. If this is no longer the case, leaders should dedicate time to articulating these grounding principles.

Because strategy operationalizes a company's vision and articulates how one will arrive at the desired destination, leaders can't articulate a clear and compelling strategy without first establishing the vision. In other words, strategy without vision is much like a set of directions with no specified destination. A variety of resources exist to help leaders in the process of defining their vision. Two compelling ones are Innosight's "future-back" process and A.G. Lafley and Roger Martin's "playing to win" framework.[7]

Step 2: Map the business model and determine its viability

Armed with beliefs about the future and a clarified mission and vision, leaders should then map out their current business models. (See Appendix A for an overview of the business model framework.) There are many methodologies available to complete this step, but the most straightforward is the four-box framework.

This framework includes the following components: value propositions, resources, processes, and profit formula/priorities.[8] To help articulate each component of the business model, the following fleshed-out definitions will be helpful:

- **Value proposition(s):** the promise(s) an organization makes to fulfill customer needs or goals. Most businesses have multiple value propositions, which are delivered to customers as products or services. In health care, this includes promises the organization makes to its consumers (patients or members) and customers (insurers or employers), as the two are often different.
- **Resources:** the assets (both tangible and intangible) that are required to deliver the value proposition(s). These include people, technology, products, facilities, equipment, brands, and cash.
- **Processes:** the habitual ways of working together that emerge as people address repeated tasks successfully. Some processes are explicitly stated, documented, and followed. Others are unstated and executed as part of the unspoken culture. Examples include training, budgeting, planning, performing a well-visit exam, etc.
- **Profit formula/Priorities:** Profit formula includes the revenues required to cover all the costs associated with resources and processes that are needed to deliver the value proposition(s), and the margin that is required for sustainability. Priorities include the policies, rules, measures of success, and culture that guide investment decisions in support of the profit formula.

We frequently refer to the resources, processes, and profit formula/priorities as the RPPs of a business.

To assess the business model's continued viability, leaders should look at both current and projected revenues and expenditures to accurately evaluate whether their model has a viable trajectory.

In the case of addressing DOH and shifting to a value-based care (VBC) business model, it's worth noting that not all VBC approaches are created equal. There are various levels of maturity in this competency, and organizations are in different places in their journey. (See Appendix B for a maturity model to assess where your organization currently falls and where you aspire to be.) This will be a key factor for consideration as leaders move to step three.

Step 3: Determine the strategy for change while accounting for risk

We assume leaders are embarking on a process to articulate a new strategy for at least one of a variety of reasons: 1) something about their current business model is not meeting their long-term viability needs, 2) it's not sustainable to continue to deliver their current model, and/or 3) what the company offers is no longer desirable to consumers and customers. For many leaders seeking to integrate DOH into their businesses, the motivation primarily stems from preparation for a value-based future where they will be paid differently.

When leaders need a strategy to operationalize a required business model change, they have a choice of two pathways: they can improve their existing model, or transform their business by creating a new business model. The challenge is in choosing the appropriate pathway and accepting the risks that go along with each option. Since all the organization's subsequent efforts will hinge on the choice made in this step, it's critical for leaders to choose the right strategy for their organization. The next section articulates how to do this while accounting for tradeoffs.

PEERING DOWN PATHWAYS: IMPROVE OR TRANSFORM?

This section illuminates the details of the two pathways to demystify step 3 in the innovation process. First, we will discuss the improvement pathway, and then we'll dig into the transformation pathway, and the various options within it. With examples from both inside and outside of health care, leaders will see the benefits, risks, and tradeoffs associated with these two strategies for change.

The improvement pathway

To improve an existing business model, leaders can deliver on a close relative of their current value proposition. This similar value proposition must still align with most of the capabilities (resources and processes) of the current business model, and it must not require a new profit formula or core priorities.

In the case of DOH, that means the measures of success of an organization's DOH efforts, how the efforts are funded, and the people and processes needed to carry out the new value proposition are fairly close to those that are currently delivered.

Let's look at an example outside of health care where an improvement strategy was effective for established organizations.

Established gas-powered car companies such as Ford, Volvo, Nissan, and others have successfully improved their business models to deliver electric vehicles (EV), despite having business models optimized to deliver gas-powered cars. How did they make this change? They did it through business model improvement. This was possible because the value proposition of gas-powered cars can be summarized as "a safe and quick way to get from A to B." Not too dissimilar, the value proposition of electric vehicles could be stated as "a safe and quick way to get from A to B, with lesser impact on the environment."

These value propositions are close cousins, so companies didn't need to significantly alter their capabilities to deliver on the new customer promise. This enabled companies to deliver the new product through their existing business model.

That doesn't mean they didn't have to change any capabilities. But the ones they changed were modular and able to be exchanged without upsetting the interdependence of the four business model components. With electric vehicles, manufacturers still had the same distribution channels, the same way of making money, the same infrastructure to manufacture cars, etc. A few changes in capabilities, such as hiring new engineers with EV expertise and building electric engines instead of combustion engines, were possible because companies could swap out a modular resource or process for another one.

In short, incumbent car manufacturers can deliver the related EV value proposition from within the current interdependent system of the core business model because they changed a few resources and processes. However, they didn't alter the core way the companies made money or the core go-to-market strategies. If these business model components required alteration, the improvement strategy wouldn't have worked.

In cases where value propositions are similar, an improvement strategy is appropriate. One risk in taking this approach is that leaders may not accurately gauge the degree of difference between the existing and new value propositions, and thus mistakenly take an improvement approach when a transformation strategy is more appropriate. Additionally, in a volatile and uncertain environment, one may not be able to accurately predict if the profit formula will need to change over time. With these risks in mind, leaders should remember that if the value proposition is too different from the current one, or if the profit formula has to change, an improvement approach won't work.

The transformation pathway

The alternative approach is to transform the business model. In this situation, leaders must create a new business model outside of the existing business, also known as an autonomous business unit (ABU). This is the appropriate strategy to pursue when leaders are seeking to deliver on a new value proposition that is fundamentally different from that of their current core business model.

As a result, new business models pursued under this strategy are fundamentally different from the existing model. These new models offer an opportunity to create a new growth engine, as opposed to improving or innovating an existing business model.

There are three approaches leaders can take to pursue and execute a transformation strategy:

1. **Build:** The organization builds its own new business model that positions the organization for new growth by leveraging unique capabilities that set it apart in the market.
2. **Buy:** The organization acquires or invests in existing businesses, which represent a new growth opportunity for the parent company.
3. **Partner:** The organization partners with other organizations to build or acquire a new business model, which represents a new growth opportunity for all partners.

As with any strategy, there are risks associated with this pathway that leaders, and especially CEOs, must consider:

- **Conflicting priorities:** Organizations' priorities drive resource allocation approaches, and a new business—whether it is a built, bought, or partnership ABU—will have different priorities than the core. For an ABU to get the resources required to succeed, the CEO must approve and support the conflicting priorities. And this support must be consistent throughout the ABU's existence, not just at its launch.
- **Ongoing funding with uncertain returns:** CEOs and CFOs must be willing to continue to fund the core business's improvement efforts while also continually carving out funding to support the new growth opportunity. This is a challenge in many organizations as new growth businesses often have both uncertain long-term ROIs and near-term losses that are unlike those traditionally seen in the core business. However, without continued financial support, the new growth entity can't succeed.
- **Timing:** Building, testing, iterating, and scaling new business models takes time. If the current business model's viability is already declining or near extinction, a Transformation—Build strategy is an especially risky one to take. In this case, it would be better to pursue

a partnership or buy approach. In today's health care environment, many incumbents don't have the time to build a new business model that will fuel their future growth, and if they do, they should pursue this path in addition to a partnership or buy approach. As Amazon—not an incumbent, but a potential disruptor in the health care arena—demonstrated with its recent closing of its Amazon Care division after purchasing One Medical, buying an existing business model with the resources, processes, and priorities established to support a new value proposition offers a faster path to impact.[9]

While the challenge of creating an ABU is not small, the payoff can be great. Target, Amazon Web Services (AWS), and Optum are all examples of ABUs that either started as a small build outside of the core entity's business, or were acquired as a smaller entity. Let's look at AWS as an example to highlight the power of an ABU.

Launched in 2006 as a side business for Amazon, AWS is a cloud computing platform offering a wide range of services to online developers. It now makes up 74% of Amazon's operating profits, which in 2021 represented $18.5 billion.[10] AWS's genesis can be traced back to 2000 as part of a retreat where employees identified Amazon's core competencies. Among the list of competencies was running infrastructure services like computing, storage, and databases, as well as running scalable, cost-effective data centers. They had embarked on these capabilities out of necessity as a low-margin business and their own need to be lean and efficient.[11] Now, they had the opportunity to leverage these capabilities for new growth.

In 2003, Amazon determined it had a greenfield opportunity to build the internet operating system (OS).[12] Andy Jassy—now CEO of Amazon, and then chief of staff to Jeff Bezos—stated that building this OS would "allow any organization or company or any developer to run their technology applications on top of our technology infrastructure platform."[13]

Three market realizations, grounded in listening to customers and understanding their needs, led to AWS's development:

- Time was being wasted building the same infrastructure for storage and database solutions repeatedly.
- Three CEOs asked Amazon to help them develop data warehousing, after declaring infrastructure services a top priority.
- To develop solutions for customers, Amazon needed a consistent way to securely communicate with them and provide direct access to infrastructure and data services across its platform.[14]

To bring this business to life, Amazon defined AWS as an intrapreneurial effort and created a separate entity within its corporate structure to house this startup effort.[15] It was critical to separate it from the core business of online retail sales since different resources, processes, and priorities were needed to allow it to flourish. As AWS developed its products and time went on, listening to developers—the primary users of its offerings—was a core component of AWS's product iteration, and critical to its success.[16]

From initial ideation to launch, it took six years for AWS to enter the market, and more than a decade for it to become the largest portion of Amazon's operating profits. By 1) determining which core competencies it held that could be used to set itself apart in the market, 2) articulating where it saw the market going (its beliefs about the future), and 3) grounding its innovation efforts in customer needs and feedback, Amazon built a new growth engine that will fuel its profitability for years to come. With AWS, Amazon's leaders had the time to build. However, given the different market dynamics in 2022 and beyond, not all health care entities have the time or funding required to follow in Amazon's AWS footsteps.

In cases where the value proposition of the core business is different from that of a potential new growth engine, the current business model's viability is limited or already in decline, and/or a new profit formula is required, leaders must pursue a transformation strategy. As outlined in this section, there are risks and key considerations executives must take into account to pursue transformation effectively. Though challenging, it is possible.

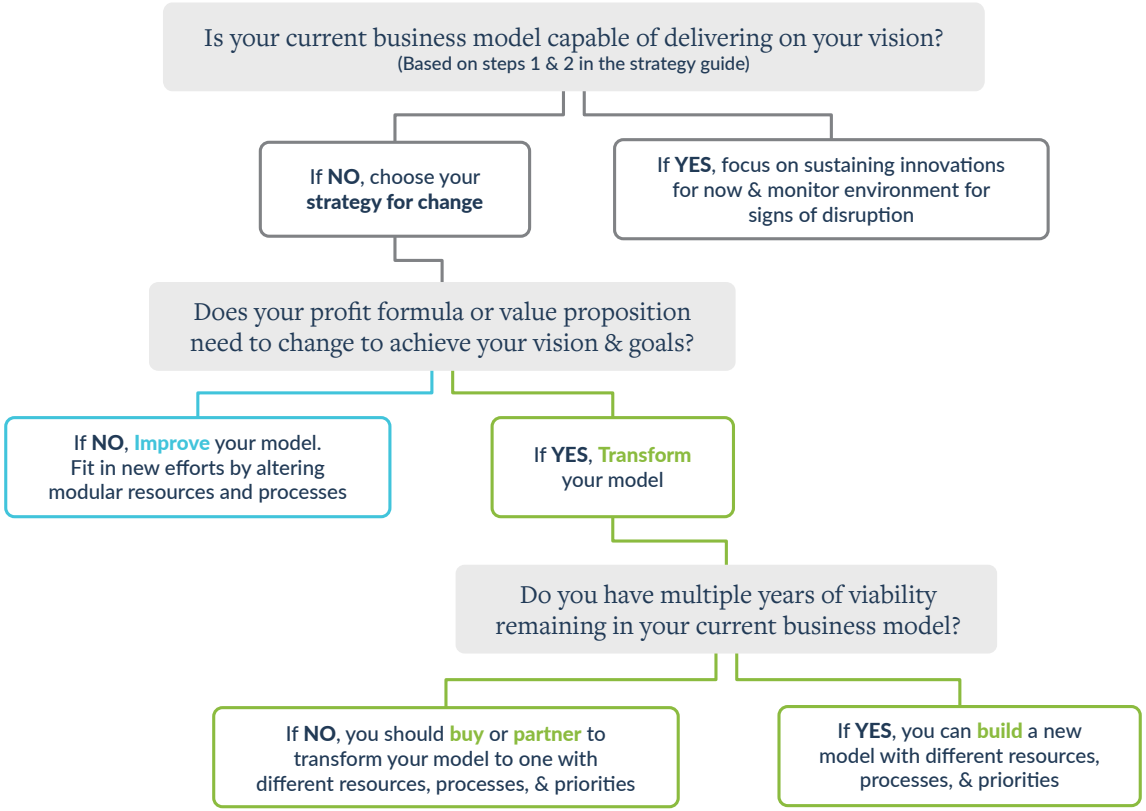
Given these various strategies for change, it's critical to determine which strategy is right for a given leader and organization's context.

There are risks and key considerations executives must take into account to pursue transformation effectively. Though challenging, it is possible.

CHOOSING YOUR INNOVATION STRATEGY: A DECISION TOOL

Below, we lay out a decision tool to help guide leaders as they determine which business model strategy is right for them. This guide takes into account the context and risk considerations outlined in the prior sections. It's based on the tenets of business model theory and what has worked—and hasn't—for leading innovators in the field.

Figure 2. Decision tool to determine the right strategy for your organization



In the next section, we provide deep dives on four innovative organizations that are undergoing business model change to address DOH and prepare for the value-based world. These case studies offer insights to leaders in similar situations seeking to do the challenging work of business model change.

INNOVATORS IN ACTION: CASE STUDIES

Atrium Health

Atrium Health is a large, integrated nonprofit health system located in the Southeast, providing care across the Carolinas, Georgia, and Alabama. Offering services across the care continuum, the organization is grounded in its mission to "improve health, elevate hope, and advance healing—for all."[17] To promote the achievement of this mission, Atrium Health leaders established social impact and health equity as a strategic priority, led by Dr. Kinneil Coltman, DHA, senior vice president and chief community and social impact officer for the 40-hospital system.

In this case study, we'll look at why Atrium Health pursued a focus on social impact and drivers of health, as well as the strategy and business model construct it put into place to support these efforts. We'll cover how its approach to addressing DOH involves a value proposition that's a close cousin to its existing consumer value proposition (care when one is sick or seeking to avoid sickness). As a result, it offers an example of how an organization can deliver on its DOH and social impact efforts by making improvements to its existing business model.[18]

Eugene A. Woods, Atrium Health's president and CEO, has been passionate about promoting health equity since before his arrival at the system in 2016. After Woods appointed Coltman in 2019 to run its social impact and health equity work, the passion of both leaders, combined with the support of the organization's governing board, made social impact and addressing DOH a priority for Atrium Health. Coltman explained that the focus on eliminating health disparities was heightened in 2020 in the early days of COVID-19, which not only highlighted health and access disparities, but also the great opportunity for health systems to do more to address these issues and their underlying health drivers.[19]

To support social impact efforts and effectively address DOH, leaders knew they needed additional capabilities that weren't inherent to Atrium's core business model of health care operations and care delivery. Key additions Atrium Health incorporated, and is actively working to incorporate, into its business model are highlighted below.[20]

- *Value proposition*
    - Address the most critical community health needs as highlighted in the Community Health Needs Assessment (CHNA)
- *Resources*
    - Form a new social impact valuation team (with expertise in grant writing and intervention evaluation)

    - Leverage an enabling technology platform to support connections to community-based organizations (findhelp[21])
    - Hire Community Health Workers (CHWs)
- *Processes*
    - Use existing CHNA collection process to inform strategy and investments
    - Expand process to screen patients for social needs
    - Provide low-interest loans to affordable housing partners such as RoofAbove to preserve naturally-occurring affordable housing in the region (Note: The system historically had a strong community benefit structure and processes, so the social impact work enhanced and built upon it)
    - Add processes to ensure closed-loop referrals to outside entities (CHWs are responsible for delivering this process)
- *Profit formula/Priorities*
    - Fund social impact work with balance sheet assets, grants, government funding, and philanthropy
    - Align most measures of success for social impact to existing success measures
        - New measures: DOH screenings and closed-loop referrals

Based on our analysis, a key to Atrium Health's success in implementing this approach is aligning its social impact goals to existing success measures. This meant priorities didn't need to fundamentally change to incentivize carrying out the work. Instead of creating a new measurement system, and thus the need to change the resource allocation approach, it leveraged existing measures of success and made the targets for these measures higher. The higher targets incentivize leaders and staff to carry out the processes required to achieve them. The one exception is the measurement of DOH screenings and associated closed-loop referrals, which weren't previously captured.

Deploying a strategy that calls for improvements to the current business model is not without challenges for Coltman and her colleagues. As is the case with most innovations, the start of the process was an uphill battle that required communicating to on-the-ground and frontline leaders the importance of investing in nontraditional resources and processes. A critical example of this in Atrium Health's case was the requirement to address clinical and community-level data that would allow providers and care teams to better understand individuals' DOH and address them effectively. Coltman noted the criticality of this investment to power the DOH work, but few were interested in it at first.[22]

A key to Atrium Health's success in implementing the improvement approach is aligning its social impact goals to existing success measures.

In assessing the case, we've identified that in addition to the perseverance to overcome challenges, the keys to Atrium Health's ability to successfully execute this strategy were four-fold:

1. **CEO and board support:** Without support from the highest level of the organization, strategies that require changes to the business model won't succeed.
2. **Partnership ecosystem:** The network of entities working together to tackle DOH issues includes everything from community-based organizations addressing housing challenges, to large corporations dedicated to improving health disparities, to medical school partners such as Wake Forest University School of Medicine, to startups.
3. **Dedicated resources for the work:** The dedicated leadership and team noted above in business model resources is critical for success. A dedicated team means the social impact strategy can be carried out without constantly asking the core business for additional resources.
4. **Strong financial position:** To support this work, Atrium Health leverages a diverse pool of funding that ranges from balance sheet assets, to grants, to government funding, to philanthropic donations (including a recent $10 million gift from Bank of America).[23]

While Atrium Health's improvement strategy is appropriate for its current situation, it also has a bold goal to reduce the life expectancy gap in its most vulnerable communities. Given the greater difference between this goal and its core value proposition, the organization will need to transform its business model, instead of improving its existing one, to realize this goal over time. To reiterate insights from our last report, this is because one can't deliver on a new value proposition from within an old business model.[24] The resources, processes, profit formula, and measures of success are simply not set up for that to work.

With its established focus on social impact and health equity, and addressing the drivers of health to deliver on these goals, Atrium Health is harnessing an improvement strategy to invest in the future. These efforts support its current strategy and help it prepare for a value-based environment. The capabilities it's putting into place to support social impact are also required to succeed in value.

Without support from the highest level of the organization, strategies that require changes to the business model won't succeed.

Providence—Ayin Health Solutions

Providence is a large nonprofit Catholic health system with locations across the southern and western US. Its mission of serving "all, especially those who are poor and vulnerable," combined with ownership of its own health plan, drives its offerings of a wide range of health and wellness services.[25]

Known for being on the bleeding edge of digital health innovation, Providence has a number of business units that function to create growth for the system. Among these is Providence Ventures (PV), which invests in and acquires companies focused on improving the future of health. PV works closely with the Providence Digital Innovation Group, which states as its mission: "We shape, build, and scale meaningful ideas at one of the largest health systems—then offer them to the world."[26] To date, it has spun out three new companies with disruptive potential.[27]

The focus of this case study is its population health management entity, Ayin Health Solutions (Ayin), which is a wholly owned subsidiary of Providence. We spoke with Ruth Krystopolski, president at Ayin Health Solutions, to learn the why, how, and what behind Ayin's model. Below, we'll identify what about this approach makes it a great example of a Transformation—Build strategy.

Providence executives created Ayin after asking what capabilities were required to succeed in the future, especially those needed to support VBC delivery. There was a gap in the market for providers seeking to acquire the capabilities (resources and processes) necessary to deliver VBC, especially for smaller providers, and Providence jumped on the opportunity to serve the market need and find an alternative revenue stream in the process. Ayin was originally created as part of Providence's health plan. But this setup limited Ayin's ability to grow as it was tied to an established line of the core business. Upon realizing this, executives spun it out as its own entity with its own advisory board.

As an ABU, Ayin's business model is fundamentally different from that of Providence's core business model of care delivery. Below is an outline of Ayin's approach.

- *Value proposition:* Ayin offers customers affordable, accessible, scalable, clinically-relevant, easy-to-access data across the health value chain—in real time. This value proposition is packaged in the form of a Community Integration Manager platform. Along with the platform, Ayin offers service support to help the customer implement, act upon, and report the outcomes of its implementation.
- *Resources:* A key resource Ayin leverages to deliver on this value proposition is a technology company it acquired that has 20 years of expertise in the space. This acquisition allowed Ayin to skip the time and resource efforts required to build the capability and get to market faster. As was a theme in each organization we interviewed, Ayin also has a dedicated team to carry out the day-to-day functions of platform development, iteration, testing, and deployment.
- *Processes:* Its processes also differ from those of the core business. Krystopolski highlighted that an agile development process was critical to ensure Ayin was delivering on its customers' needs as well as their real-time feedback. This process allows for almost weekly iterations. Additionally, as an entity in its early stages that is not wedded to Providence's deliberate strategy, Ayin leverages an emergent strategy process, which allows it to pursue opportunities as they arise, as long as they are aligned with Providence's mission.
- *Profit formula/Priorities:* Looking at its profit formula, 20% of Ayin's revenue comes from internal sales to Providence, while 80% is externally generated. Customers pay for the platform as well as services Ayin provides, such as data integration reporting. Ayin's priorities are similar to those of its parent company from a financial perspective (i.e., EBITDA and NOI), but as an ABU, it has established its own priorities as well. These include the number of partnerships established and retained, ensuring it is meeting its customers' needs and goals, and a new revenue target of $50 million by 2023.[28]

Even as a separate entity, Ayin encounters challenges when forced to follow the core's established processes, including the complex Providence processes for human resources and finance reporting. Startups need to act nimbly, and large health care systems' processes are usually anything but nimble. However, the pull of the core to follow its established ways didn't deter Krystopolski. She identified a key to success as acting on the mindset of "How do we get that done?" versus accepting that a workaround isn't possible.[29]

Other keys to Ayin's success include:

1. **Focusing on value creation for all stakeholders:** Krystopolski noted, "In health care, it's really important that we focus on not just revenue generation, but on creating value for everyone, especially the patient."[30]
2. **Experimenting and pushing boundaries:** A "how might we" mindset and iterative testing is required to overcome any setbacks and roadblocks.
3. **Starting but not rushing:** Krystopolski explained the importance of getting started. She stated, "Everybody thinks we have to go from zero to 100. And the reality is, we just need to start driving the car."[31]
4. **Dedicating resources:** A dedicated team is critical, so Krystopolski doesn't have to borrow human capital resources from the core to do her work.
5. **Separating from the core:** Ayin is its own separate entity with its own advisory board. This structure allows it to establish the unique resources, processes, and priorities (RPPs) required to deliver on its unique value proposition, which differs from that of the core Providence entity.

With Ayin, Providence is investing in the capabilities required to succeed in population health and VBC. In doing so, it's diversifying its revenue streams as it sells these capabilities to other organizations seeking to do the same.

Ayin's advisory board structure and the fact that it's its own entity allows it to establish the unique resources, process, and priorities (RPPs) required to deliver on its value proposition, which differs from that of the core entity.

Because consumer health and wellness offerings aren't a core component of Advocate Aurora's current health care operations business model, a transformation strategy was required to create a new growth engine.

Advocate Aurora Health—Advocate Aurora Enterprises (AAE)

Advocate Aurora Health is a not-for-profit health system with locations across Illinois and Wisconsin. Providing a range of health services, the organization is driven by its purpose to help people live well. In the mid-2010s, executives at Advocate Aurora noticed nationwide trends indicating that its core business of health care services provision could face a continued structural decline in profitability. And as a capital-intensive business, market declines in reimbursement could compromise Advocate Aurora's ability to continue delivering on its mission. Scott Powder, the former chief strategy officer of Advocate Aurora and now president of Advocate Aurora Enterprises, noted, "Our core business has a lot of attributes of other industries that have been, or are being, disrupted."[32]

In a committed effort to proactively address declines in core business profitability and stave off disruption, Advocate Aurora's executives took action. Armed with beliefs about the future that this reduction wouldn't reverse, the CEO, executive team, and the board made a commitment to invest in both 1) innovating the core business and 2) establishing a new growth strategy to promote long-term viability. "We need to become more involved in the consumer health and wellness space, and we need a vehicle to allow us to do that," Powder, said, adding that this belief was strongly held by the executives.[33]

Because consumer health and wellness offerings aren't a core component of Advocate Aurora's current health care operations business model, a transformation strategy was required to create a new growth engine. Through deliberate and dedicated work, the Advocate Aurora executive team and the board aligned on the importance of investing in a new growth engine. They secured a capital allocation to build an ABU, now known as Advocate Aurora Enterprises (AAE). Its goals are two-fold: to impact health at scale and to improve the financial health of Advocate Aurora in a material way. To achieve these goals, AAE invests in and acquires companies focused on improving consumer health and wellness.

The key business model differences of AAE from that of Advocate Aurora's core entity can be summarized as follows:

- *Value propositions*
  - Diversify revenue streams and new growth opportunities for Advocate Aurora
  - Impact consumer health and wellness at scale, beyond current market footprint
- *Resources*
  - Adopt an asset-light approach
  - Create a dedicated team that is separate from Advocate Aurora's core business resources

- *Processes*
  - Invest in and/or acquire companies that help people live well at every stage of life
- *Profit Formula*
  - Receive capital allocation from Advocate Aurora
  - Invest in and/or acquire companies with direct-to-consumer revenue sources
- *Priorities*
  - Measure EBITDA (same as core)
  - Track lives touched by companies invested in/acquired
  - Create and track a Health Impact Index

The Health Impact Index designed by Powder and his team is based on the quality-of-life measures that AAE's portfolio companies impact. Through surveys and additional tools, AAE determines if its portfolio companies—one of which is Senior Helpers, a company that provides in-home personal care services to help people age in place—are successfully improving the health and wellness of consumers.

By creating an index, AAE can continue to use the same measures as it adds portfolio investments with additional areas of consumer health focus. In our recent report, "You Are What You Treat," we highlighted the importance of establishing measures of success that determine if a business is effectively serving its consumers' and customers' needs and goals.[34] With the Impact Index, AAE is doing just that.

This undertaking was not without its challenges, and the strategy isn't for the faint of heart. Critical challenges to overcome included the realities of business model theory and the gravitational pull of the core business. At Advocate Aurora, as in any company seeking to deploy this approach, leaders had to manage employees' tendencies to carry out the processes they had been taught over many years. These processes support the core value proposition but may be counter to those of the new growth engine.

Additionally, when discussing AAE's strategy to invest in and acquire new growth businesses, versus incubating and building them, Powder stated, "Incubating innovations is just not a viable strategy for us if we're going to get to scale anytime this century."[35] As a result, AAE's transformation strategy embodies a Transformation—Buy approach: one of transformation through an ABU focused on investment and acquisition.

Powder articulated a number of keys to success that enable AAE to deliver on its goals:

1. **Aligning with the board of directors:** This includes alignment on the importance of investing in a new growth engine, while also investing in the innovation for the core organization.
2. **Having the CEO's continued support:** Specifically, the CEO supports that AAE be completely unfettered from the core.
3. **Separating from the core:** AAE was created and is maintained as a wholly new organizational structure.
4. **Innovating the core and transforming for the long run:** As the health care market and future profitability evolves, there must be awareness of and quick action to both innovate the core and transform for the long run.
5. **Being patient:** The transformation process takes time, and recognizing this is critical to success.

In his interview, Powder also emphasized the critical role of Advocate Aurora's Transformation Oversight Committee, which is composed of an eight-leader subset of the organization's executive team. The CEO, COO, CFO, CSO, and four others meet weekly to deal with the strategy and resource allocation issues that arise when an organization establishes a new growth engine that runs counter to the core business model's resources, processes, and priorities. Powder noted that, to date, the committee has been "a remarkably successful vehicle to oversee and balance sometimes competing interests."[36]

As leaders seek to establish new growth businesses through a Transformation—Buy strategy, much can be learned from Advocate Aurora's approach. In short, patience, persistence, and perseverance are critical characteristics for the leader of this strategy to employ.

Intermountain Healthcare—CivicaRx

Intermountain Healthcare is a nonprofit integrated health system, and the largest health system in the Intermountain West of the US. Spread across several states and offering services encompassing the total range of health and wellness, its team of 60,000 caregivers is guided by its mission of "helping people live the healthiest lives possible."[37] In addition to care provision, Intermountain owns and operates a health plan, SelectHealth, making it among the most well-known "payviders" in the US.

Long known as a leader in innovation, Intermountain has executed various innovative strategies resulting in lower care costs and improved health outcomes.[38] While much can also be learned from its investments in preventive care and focus on addressing DOH, the focus of this case study is one of Intermountain's transformative partnership efforts: CivicaRx.

CivicaRx highlights an example of the Transformation—Partner strategy, where an organization comes together with other organizations (including competitors) to drive change at a scale no individual organization could achieve alone. Here is an in-depth exploration of how they brought this strategy to life.

Intermountain's leaders believe the future will be one where hospitals are commodities providing commodity returns.[39] As a result, they've made a clear and unwavering commitment to value. In 2016, Intermountain's chief strategy officer, Dan Liljenquist, had an idea to address the unfair market pricing of drugs for which there is inelastic demand, such as insulin. The current pricing scheme existed because of the oligopolies in the market and the inelastic demand curve of certain medications. These oligopolies dictated the pricing and supply of many medicines. Due to these market conditions, Intermountain was faced with 200 medication shortages each day, which resulted in provider stress and patient risk.[40] It wasn't alone; this same problem plagued hospital systems and patients across the country.

As a result, Intermountain set out to stabilize market supply and create a sustainable, fair market price for individuals and provider systems. Liljenquist noted, "The goal wasn't to drive market share. It was to drive market impact."[41] Liljenquist didn't just want to build a company. He sought to build a functioning marketplace that would not only solve the problem, but would also offer a competitive advantage where none had existed for some time.

A new business model was required to bring about this type of change, given that the RPPs of this concept varied greatly from those of Intermountain's core business. Change of this scale also necessitated partners from across the country. When asked why a partnership approach was taken, Liljenquist stated, "We just weren't big enough. We had to aggregate market volume."[42]

Under Liljenquist's leadership, Intermountain brought this model to life with the launch of CivicaRx as a nonstock, nonprofit membership organization that now comprises 55 health systems and 1,500 hospitals while making 64 drugs that have treated around 35 million patients.[43] In effect, Intermountain and its partners created a monopsony, which aggregates market demand. While CivicaRx was launched by Intermountain, and benefits accrue to it and all the member organizations, it isn't owned by Intermountain. CivicaRx is a completely separate entity.

Unaffordable medications limit access and lead many patients to become nonconsumers of treatment, harming their health outcomes.[44] With CivicaRx, Intermountain created a sustainable market price that benefits both providers and patients. The business model that enables this outcome can be summarized as follows:

- *Value proposition*
  - For patients: Offer sustainable, fair prices for medications that have an inelastic demand curve
  - For provider systems: Offer sustainable, fair prices for medications that enable the provision of effective, safe care. Every member organization gets the same price per unit, regardless of whether it is a founding member or just joined.
- *Resources*
  - Establish a board comprised of nine health systems and three philanthropies
  - Hire dedicated, full-time employees separate from member organizations' resource pools
- *Processes*
  - Establish production and distribution of medications
- *Profit formula*
  - Receive a $10 million contribution from each founding member entity to launch CivicaRx. $1 million would not be returned, but the other $9 million was invested in a long-term debt instrument.
  - Reinvest returns from drug sales into the mission

Launching a transformation effort in a market dominated by oligopolies was not without its struggles. One major challenge was persuading smaller health systems to join CivicaRx without having a direct role in the entity's governance. To overcome this challenge, leaders wrote into the CivicaRx bylaws that specific rights would apply to all members, regardless of their role in governance. For example, every member receives the same price and pricing terms, regardless of size or governance role.[45]

When Liljenquist was asked how he would advise others seeking to establish transformational entities, he called out three recommendations:[46]

1. **Be a learn-it-all person, not a know-it-all person:** Emphasize the desire to learn over knowing the answers from the start.
2. **Be hypothesis driven:** Always iterate and test your assumptions.
3. **Find the best people:** When hiring, seek those who want to do something that matters.

Through CivicaRx, and other ABUs, Intermountain is lowering costs of care and improving health in the process. And with its Transformation—Partner strategy, its reach spans across the nation, multiplying the health impact beyond those that it traditionally serves.

Much can be learned from Intermountain's convictions that 1) its value strategy is both the best way to deliver on its mission and win in the market, and that 2) the business model structures it has built will support executing that approach. And as we wrote in "You Are What You Treat," to transform lives, health care systems must transform business models. Intermountain provides one example of how to do that through novel partnerships.

With CivicaRx, Intermountain created a sustainable market price that benefits both providers and patients. With its Transformation-Partner strategy, its reach spans across the nation.

Those who pursued a transformation strategy acknowledged that while it required the organization to take on risk, staying the course with their current business model and doing nothing posed greater risks.

INNOVATORS IN ACTION: KEY TAKEAWAYS

Each leader and organization we researched covers a different geography, exists in a different market environment, and has a different core business model. Yet as we look at these case studies in aggregate, pivotal themes arise. Here are five key takeaways we observed.

1. Strategies were aligned to executives' beliefs about the future, as well as organizations' missions and/or visions.
2. Identifying a pathway to improve a current business model while still addressing the DOH needs of communities is possible (i.e., Atrium Health)—at least in the near term—as long as the value proposition of the new strategy is a close cousin of the organization's current core value proposition.
3. Those who pursued a transformation strategy determined their current business model wasn't viable for the long-term.
4. Those who pursued a transformation strategy acknowledged that while it required the organization to take on risk, staying the course with their current business model and doing nothing posed greater risks than the investment in a potential new growth engine. They also knew it would come with challenges, and as AAH demonstrated, having organizational structures in place to manage these challenges proved useful.
5. Providers and payviders have a core capability that should be leveraged in their innovation efforts, which payers do not: real-time clinical data. Leaders in these organizations should recognize this critical asset as something to leverage when developing new growth engines.

As leaders embark on their business model change efforts and identify the strategy that is right for them, these takeaways can serve as useful inputs. Learning from innovators who have already trodden down the path of business model change can help leaders newer to the effort skip unnecessary steps and enhance their likelihood of success.

CONCLUSION

Changing a business model is hard work. To increase the chances of success for this seemingly impossible—and historically ineffective—undertaking, there are two types of innovative strategies leaders can utilize. Depending on their specific business model context, they can choose to improve or to transform.

Improvement strategies are likely to lead to more success in the short run, while transformation strategies will likely yield longer-term viability. Those who execute an improvement strategy won't need to create a wholly new business model in the near term. This provides the benefits of speed, less organizational resistance, and lower investment costs. However, since this strategy requires a value proposition that is a close cousin of the current core business model's value proposition, the longevity of this strategy may be limited. This is especially true in health care where the traditional FFS business model has shown its lack of resiliency and longevity in our current volatile, uncertain, complex, and ambiguous environment.

Those who choose a transformation strategy will need to create a new business model. It must be separate from the core business, either in an ABU or in another vehicle fully separated from the core. This pathway comes with immense challenges at first, but the payoff can be great. The CEO's unwavering support, dedicated teams to carry out the separate work of the ABU, new measures of success, and patience for growth are critical inputs to effectively carrying out a transformation strategy.

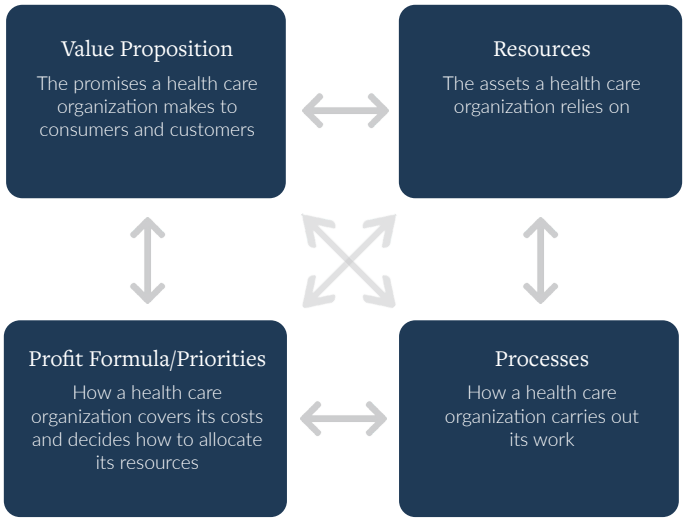
While a tough climb at the start, effective execution of transformation strategies can lead to longer-term viability. And in today's environment with VBC either here or on the horizon, the time to invest in the businesses suited for that ecosystem is yesterday. The next best option is today.

Chinese philosopher Lao Tzu said, "The journey of 1,000 miles begins with one step," which is quite applicable to business model transformation. All transformational change requires a combination of perseverance, persistence, and patience. Yet it's still possible to create viable business models that improve health and life with theory-informed strategy and execution tools by your side. May the strategy guide, decision tool, and case studies of leading innovators found here prove to be three of them.

APPENDIX A: BUSINESS MODEL OVERVIEW

Business models determine an organization or company's capabilities (what it can and can't do) and its priorities (what it must accomplish). This, in turn, defines which innovations it can and will pursue. Business models are made up of four components: value proposition, resources, processes, and profit formula/priorities (see Figure A.1).

Figure A.1. Business model components in health care



In an organization's early days, all business model components are flexible. To survive infancy, organizations pivot their value propositions and adjust their resources and processes until they identify how to bring in the revenue they need to survive. Once this is determined, business model components become increasingly interdependent and resistant to change, especially in successful organizations. The ways in which the four components reinforce one another make the business model highly interconnected, and thus more challenging to alter the longer it exists.

The framework is powerful because it enables the prediction of which initiatives will succeed and which ones will fail. It's critical for leaders to understand these four components of a business model so they know what to leverage from their core business when they need to employ a new business model approach.

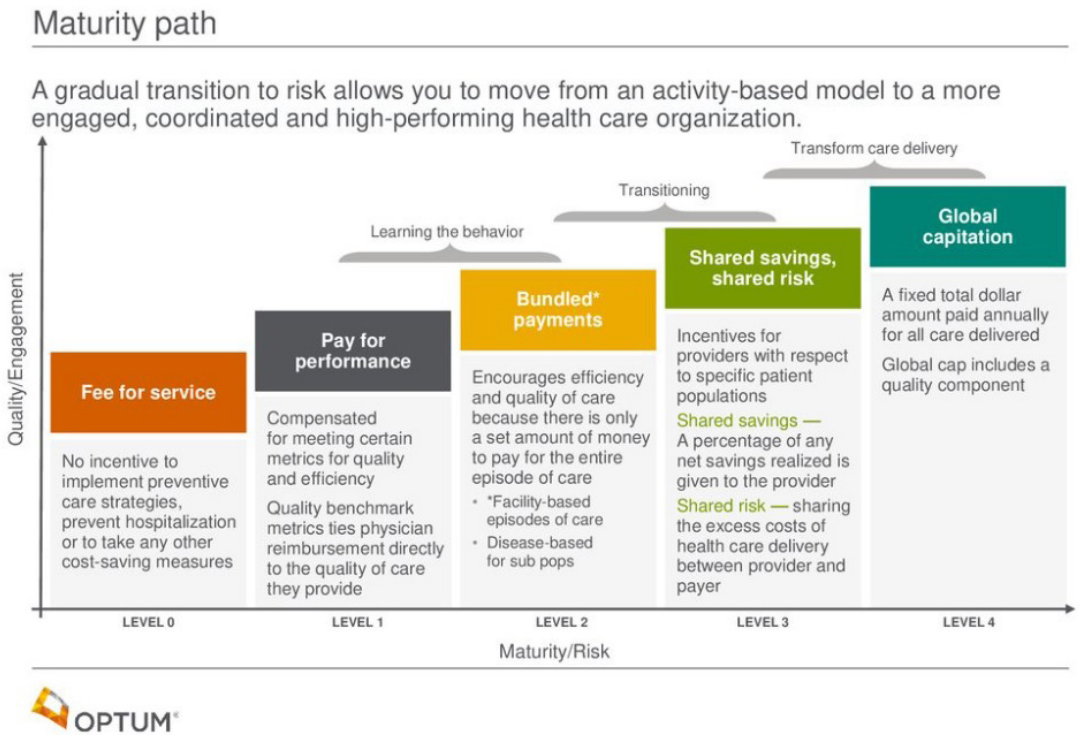
APPENDIX B: VALUE-BASED CARE MATURITY MODEL

Not all VBC is the same, and the national shift toward incentives to provide it are happening at uneven and uncertain speeds. In short, VBC encompasses a wide range of business models with associated profit formulas.

These profit formulas incentivize more or less alignment with care provision that improves health outcomes and lowers the cost of care. Optum's VBC maturity model below highlights that as the organization's financial risk increases, so do the quality of health outcomes. This means that as the organization takes on the full financial responsibility (i.e., global capitation) of the patient's health outcomes, it bears a larger financial risk; but the quality of health created will increase, as will the organization's financial benefit.

As we saw in the COVID-19 pandemic, organizations that had value-based business models, especially those at Level 3 and 4 in the image below, were far more resilient than entities with FFS business models. When incumbent leaders complete step 2 in the strategy guide above to outline their business model and determine its future viability, this maturity matrix can be useful in assessing where they are on the path to providing fully value-based care.

Figure B.1. Value-based care maturity model to assess organizational maturity[47]



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19. Kinneil Coltman (senior vice president and chief community and social impact officer, Atrium Health), in an interview with the author, January 2022.

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28. Given Providence's 2021 revenue of $27.3B, this may seem like a negligible amount. But new growth engines always start off small, which is what creates the Innovator's Dilemma. The Innovator's Dilemma occurs when leaders of well-led companies listen to their customers and invest aggressively in new technologies. Yet they still lose market power due to their focus on sustaining innovations instead of new growth, disruptive innovations. Forward-thinking CEOs will invest in new growth engines despite their initial small size because the inaction of not investing will sink the business over time as the core business model runs its course. The key to achieving success with new growth engines is focusing on profitability before growth, and only growing once the model is proven viable.

29. Ruth Krystopolski (president, Ayin Health Solutions), in an interview with the author, August 4, 2022.

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About the Institute

The Clayton Christensen Institute for Disruptive Innovation is a nonprofit, nonpartisan think tank dedicated to improving the world through Disruptive Innovation. Founded on the theories of Harvard professor Clayton M. Christensen, the Institute offers a unique framework for understanding many of society's most pressing problems. Its mission is ambitious but clear: work to shape and elevate the conversation surrounding these issues through rigorous research and public outreach.

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